

New Tire Tax

Retailers

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This guide explains the application of tire tax to new pneumatic tires.

WHAT TIRES ARE TAXABLE?

New pneumatic tires purchased after May 31, 1989, including all new pneumatic tires purchased with a vehicle, are subject to the tire tax of \$5 per tire.

A new pneumatic tire is any new tire requiring inflation by air pressure (including spare tires known as "doughnuts") intended for use as an original or replacement tire on:

- passenger cars, vans, trucks, commercial vehicles, motor homes, motorcycles and off-road vehicles
- recreational trailers, utility trailers or other vehicles designed for towing behind a motor vehicle
- construction equipment
- private aircraft.

Exempt from tire tax are any tires not designed as pneumatic tires, used pneumatic tires and new pneumatic tires used on:

- production equipment, farm machinery, fire-fighting vehicles, commercial aircraft and wheelchairs
- bicycles, tricycles and toys
- garden tractors, wheelbarrows, snowblowers and similar equipment
- vehicles purchased by status Indians living on a reserve
- vehicles purchased by diplomatic or consular officers
- any vehicle shipped by a seller to a point outside Ontario for **permanent** use outside the province.

HOW IS TAX CALCULATED?

Purchases

The tire tax is a flat tax of \$5 per tire whether purchased separately or included with the purchase of a vehicle. Effective June 1, 1989, the tire tax forms part of the value on which 8% retail sales tax is calculated.

A purchaser who pays to upgrade tires **after** taking delivery of a new car is required to pay tire tax on the original tires **and** the upgraded tires.

On promotional sales, such as two tires for the price of one, tire tax is paid by the purchaser on each tire included in the sale. Vendors who give away tires as promotional distribution are required to pay tire tax on each tire.

Customers who have tires replaced under warranty at no charge are not required to pay the tire tax. However, if a customer is required to pay **any amount** as an adjustment to replace a defective tire, the \$5 tire tax will apply.

Lease or Rentals

Vendors who rent out or lease vehicles are not required to pay tire tax on tires included in the purchase of these vehicles or on replacement tires for them.

In all cases where tire tax is payable, the tax must be added to the rental or lease charge before calculating 8% sales tax.

Rentals

Tire tax should be charged to the first customer who rents:

- a new vehicle that is rented for the first time for 7 consecutive days or more after May 31, 1989 or
- a vehicle on which one or more pneumatic tires have been replaced and the first rental with the replacement tires for 7 consecutive days or more occurs after May 31, 1989.

As an alternative, rental agencies may use one of the following methods to account for the new tire tax on short-term rentals of vehicles or equipment:

- Pay or account for retail sales tax including the \$5 tire tax on each purchase of new pneumatic tires (whether as part of a new vehicle purchased for rental purposes or as replacements). The rental agency may then pass on the increased cost to their customers in the rental charges.
- Charge a percentage of 8.3% on all short-term rentals entered into on or after June 1, 1989. Rental agencies choosing this option must indicate on customer invoices that this percentage represents retail sales tax at 8% plus an amount for tire tax.

After adopting one of these approved alternatives, rental agencies must apply it consistently.

The 8.3% rate will be reviewed annually. Early in 1990, the Retail Sales Tax Branch will survey car rental agencies to verify its accuracy and may adjust the percentage, effective June 1, 1990.

Leases

Leasing companies may use one of the following approved methods:

- Collect the new tire tax in full on the due date of the first lease payment. This method should be applied if no gas-guzzler taxes are involved.
- If the leased vehicle is subject to the gas-guzzler tax, collect the new tire tax as well as the gas-guzzler tax in full on the due date of the first lease payment

or

collect the new tire tax with the gas-guzzler tax over the term of the lease.

Companies that lease **tires only** are required to charge tire tax on the first long-term leases of new pneumatic tires after May 31, 1989. The tire tax is collectable in full on the due date of the first lease payment.

REMITTING THE TAX

New Pneumatic Tires Sold in Ontario:

Vendors should show the tire tax separately on each invoice and in their records. Tire tax should be included with retail sales tax reported on line 2 of their retail sales tax returns.

Vendors must account for tire tax on vehicles or tires taken from inventory for business or personal use by staff, family or others. (See Sales Tax Guide 712, "Dealers' Own Use of Vehicles").

New Tires Brought into Ontario:

Effective June 1, 1989, people who purchase new pneumatic tires outside Ontario and bring them into the province within 6 months after purchase must pay the tax as follows:

- Vendors bringing in new tires for their own use remit the tax on line 3 of their retail sales tax returns.
- Other purchasers may pay the applicable tax to the nearest Retail Sales Tax Office.
- If the tires are included in the purchase of a current or prior model year vehicle, the new tire tax may be paid when the vehicle is first registered in Ontario at a motor vehicle office of the Ministry of Transportation.

In all instances above, the new tire tax forms part of the taxable value on which the 8% retail sales tax is calculated.

The information in this publication is only a guideline. For more specific information, please consult the Retail Sales Tax Act or contact your local Retail Sales Tax Office listed in the blue pages of your telephone directory.